

Cost-Based Support

Federal support for wireless carriers should be based on their costs, not those of wireline local exchange carriers. Costs for wireless carriers are available and reasonably similar to costs maintained by local exchange carriers.¹

RCC Minnesota, Inc.

The following information was compiled from RCC's Securities and Exchange (SEC) Report, Consolidated Statement of Operations and Balance Sheet for 2002 and 2003:

| | <u>December 31, 2002</u> | <u>September 30, 2003</u> <u>Annualized²</u> |
|----------------------------------------------|----------------------------|------------------------------------------------------------|
| • Network costs | \$ 97,200,000 | \$ 97,889,000 |
| • Cost of Equipment Sales | \$ 29,184,000 | \$ 35,915,000 |
| • Selling, General and Administrative | \$114,264,000 | \$128,559,000 |
| • Depreciation and Amortization ³ | \$ 82,497,000 | \$ 78,956,000 |
| • Return on Property and Equipment | \$108,191,000 ⁴ | \$101,706,000 ⁵ |
| • Taxes | <u>\$ 0⁶</u> | <u>\$ 0⁷</u> |

¹ Network and costs of equipment sales are similar to Part 32 accounts 6110 to 6540. General and Administrative costs are similar to Part 32 account 6720. Sales and marketing costs are similar to Part 32 accounts 6611, 6613 and 6620. Depreciation and amortization costs are similar to Part 32 account 6560. Property plant and equipment costs, net of reserves are similar to Part 32 accounts 2001, 2002, and 2003 less reserves, accounts 3100 and 3200. Taxes are similar to Part 32 account 7200.

² Amounts from September 30, 2003 report divided by .75.

³ This amount appears to include RCC's license, customer list and goodwill amortizations.

⁴ RCC's Net Investment is estimated to be the Net Property and Equipment of \$240,536,000 plus Inventories of \$6,624,000 plus Net Licenses of \$618,576,000 plus Customer Lists of \$92,748,000 plus other current assets of \$3,217,000, for a total of \$961,701,000 as of December 31, 2002 from the RCC SEC report. The Federal return on net investment of 11.25% times \$961,701,000 is \$108,191,000.

⁵ RCC's Net Investment is estimated to be the Net Property and Equipment of \$217,432,000 plus Inventories of \$4,794,000 plus Net Licenses of \$556,082,000 plus Customer Lists of \$69,128,000 plus other current assets of \$3,914,000 plus assets held for sale of \$52,699,000, for a total of \$904,049,000 as of September 30, 2003 from the RCC SEC report. The Federal return on net investment of 11.25% times \$904,049,000 is \$101,706,000.

| | | |
|---------------------------------------------------------------------------|---------------------|---------------------|
| • Total | \$431,336,000 | \$443,025,000 |
| • Lines Served | 722,373 | 740,484 |
| • <u>Cost Per-Line (approx, annual)</u> | <u>\$600</u> | <u>\$600</u> |
| • <u>Annual Revenues per-line without federal support (annual)</u> | <u>\$684</u> | <u>\$720</u> |

RCC's average annual revenue per-line consistently more than covers RCC's annual costs of approximately \$600 per-line. **Consequently, RCC has no need for federal universal service funding and any such funding would be a windfall for RCC's stockholders.**

United States Cellular Corporation

The following information was compiled from USCC's 2002 Annual Report, Consolidated Statement of Operations and Balance Sheet for December 31, 2002 annual results:

| | |
|------------------------------------|-----------------------------|
| • System Operations | \$ 492,750,000 |
| • Marketing and Selling | \$ 368,888,000 |
| • Cost of Equipment Sold | \$ 185,283,000 |
| • General and Administrative | \$ 505,237,000 |
| • Depreciation | \$ 311,993,000 |
| • Amortization | \$ 39,161,000 |
| • Return on Property and Equipment | \$ 371,670,000 ⁸ |

⁶ Taxes were set a zero because the net return of \$108,191,000 (calculated in footnote 3) less the interest expense of \$110,597,000 (from the December 31, 2002 RCC SEC report) is negative – (\$2,406,000). The December 31, 2002 RCC SEC report also shows a negative Net Income.

⁷ Taxes were set a zero because the net return of \$101,706,000 (calculated in footnote 4) less the interest expense of \$127,588,000 (nine month ending September 30, 2003 interest expense of \$95,691,000 divided by .75 to annualize) is negative – (\$25,882,000). The September 30, 2003 RCC SEC report also shows a negative Net Income.

⁸ USCC's Net Investment is estimated to be the Net Property and Equipment of \$2,007,669,000 plus Inventories of \$55,490,000 plus Net Licenses of \$1,038,556,000 plus Customer Lists of \$40,087,000 plus Systems Development Costs of \$161,928,000, for a total of \$3,303,730,000 as of December 31, 2002 from the USCC SEC report. The Federal return on net investment of 11.25% times \$3,141,802,000 is \$371,670,000.

- Taxes \$ _____ 0⁹
- Total \$2,274,982,000
- Lines Served 4,103,000
- **Cost Per-Line (annual)** **Approximately \$550**
- **Revenues per-line without federal support (annual)** **Approximately \$570**

USCC's average monthly revenue per-line of \$47.25, or an approximate annual amount of \$570 per-line for the same period, more than covers USCC's annual costs of approximately \$550 per-line. **Consequently, USCC has no need for federal universal service funding and any such funding would be a windfall for USCC's stockholders.**

Western Wireless Corporation

The following information was compiled from Western Wireless's Securities and Exchange (SEC) Report, Consolidated Statement of Operations and Balance Sheet for September 30, 2003 annual results:

- Cost of Service \$ 411,976,000*
- Cost of Equipment Sales \$ 148,417,000*
- General and Administrative \$ 251,988,000*
- Sales and Marketing \$ 200,752,000*
- Depreciation and Amortization \$ 277,749,000*
- Return on Property and Equipment \$ 227,475,000¹⁰
- Taxes \$ _____ 0¹¹

⁹ Income taxes were set at zero because the net income, shown in the Consolidated Statement of Operations is negative.

¹⁰ Western Wireless's September 30, 2003 Net Investment is estimated to be the Net Property and Equipment of \$821,448,000 plus Inventories of \$18,815,000 plus Net Licenses of \$1,160,078,000 plus Other Assets of \$21,658,000, for a total of \$2,021,999,000 from the Western Wireless SEC report. The Federal return on net investment of 11.25% times \$2,021,999,000 is \$227,475,000.

¹¹ Income taxes were set at zero because the net income, shown in the Consolidated Statement of Operations is negative.

- Total \$ 1,518,357,000
- Lines Served 2,265,800
- **Cost Per-Line (annual)** **Approximately \$670**
- **Revenues per-line without federal support (annual)** **\$640***

*Annualized based on results as of September 30, 2002

Western Wireless's average monthly revenue per-line of \$640 nearly covers Western Wireless' annual costs of approximately \$670 per-line. Were it not for international revenues per line are only 60% of its domestic revenues per line, Western's revenues would easily cover its cost per line. **Consequently, Western Wireless has no need for federal universal service funding and any such funding would be a windfall for Western Wireless's stockholders.**

Dobson Wireless

The following information was compiled from RCC's Securities and Exchange (SEC) Report, Consolidated Statement of Operations and Balance Sheet for September 30, 2003 annual results:

- Costs of Service \$ 161,044,000
- Cost of Equipment Sales \$ 48,537,000
- Selling and Marketing \$ 70,055,000
- General and Administrative \$ 87,706,000
- Depreciation and Amortization \$ 103,220,000
- Return on Property and Equipment \$ 265,762,000¹²
- Taxes \$ 0¹³

¹² Dobson's Net Investment is estimated to be the Net Property and Equipment of \$534,409,000 plus Inventories of \$18,351,000 plus Net Licenses of \$1,707,141,000 plus Intangibles of \$102,423,000, for a total of \$2,362,324,000 as of September 30, 2003 from the Dobson's SEC report. The Federal return on net investment of 11.25% times \$2,362,324,000 is \$265,762,000.

- Total \$ 736,324,000
- Lines Served 1,579,500
- **Cost Per-Line (annual)** **Approximately \$470**
- **Revenues per-line without federal support (annual)** **\$528**

Dobson's average monthly revenue per-line of \$44 per subscriber, or an annual amount of \$528 per-line for the same period, more than covers Dobson's annual costs of approximately \$470 per-line. **Consequently, Dobson has no need for federal universal service funding and any such funding would be a windfall for Dobson's stockholders.**

Alltel Wireless

The following information was compiled from Alltel's Securities and Exchange (SEC) Report:

| | <u>December 31, 2003</u> |
|----------------------------------------------|------------------------------|
| • Cost of Services | \$1,367,800,000* |
| • Cost of Products Sold | \$ 536,700,000* |
| • Selling, General, Administrative and Other | \$1,154,900,000* |
| • Depreciation and Amortization | \$ 671,000,000* |
| • Return on Property and Equipment | \$ 522,600,000 ¹⁴ |

¹³ Income taxes were set at zero because the net income, shown in the Consolidated Statement of Operations is negative.

¹⁴ Alltel's Net Investment is estimated to be (a) From 10K-F39, the sum of Buildings (\$1053.0M) plus Information Processing (\$946.7M) plus Other (\$482.3M) plus Under Construction (\$398.2M) or \$2880.2M times the estimated proportion of these investments associated with wireless (wireless segment income of \$998.0M divided by total segment income of \$1958.3M from 10K-F68 equals 50.96%) or \$1467.8M plus, from 10K-F39 wireless investment of \$5255.8M for a total wireless gross investment of \$6723.6M minus \$3345.0M, the proportion of accumulated depreciation associated with gross investment (accumulated depreciation of \$7289.1M [10K-F39] divided by gross investment less land or \$14650.7M [10K-F39] or 49.75% times gross investment of \$6723.6M) equals **\$3378.6M plus** (b) the proportion of land estimated to be associated with wireless or **\$132.1M** (total land of \$259.2M [10K-F39] times wireless proportion of segment income of 50.96%) **plus** (c) the proportion of inventories estimated to be associated with wireless or **\$62.2M** (total inventories of \$122.1M [10K-F39] times wireless proportion of segment income of 50.96%) **plus** (d) net cellular licenses of **\$761.6M** [10K-F44] **plus** (e) net PCS licenses of **\$78.5M** [10K-F44] **plus** (f) net customer lists of **\$231.9M** [10K-F44] **for a total estimated net wireless investment of**

- Taxes \$ 295,900,000¹⁵
- Total \$4,548,900,000
- Lines Served 8,023,400
- **Cost Per-Line (estimated) \$567 annually or \$47.25 per-month*****
- **Annual Revenues per-line without federal support \$570 annually ** or 47.51 per-month**

Alltel's average annual revenue per-line consistently more than covers Alltel's annual costs of approximately \$567 per-line. **Consequently, Alltel has no need for federal universal service funding and any such funding would be a windfall for Alltel's stockholders.**

*Form 10K, Financial Supplement to Form 10K, Page F12.

** Form 10K, Financial Supplement to Form 10K, Page F12 – Average wireless revenue per customer per month of \$47.51 times 12 months.

***Total cost of \$4,548.9M divided by lines for annual amount and further divided by 12 months for monthly amount

The costs provided are the system-wide costs of each carrier and thus would include costs for both high and low cost areas. Although this information is average system wide data, when evaluated it does provide factual public interest information that, (a) Provides cost data comparable to that used to demonstrate a LEC's cost-based need for support and (b) Provides a universal service cost analysis like that used for the large LECs (BOCs, etc.) for which support is based on the average of the costs of their urban and rural service areas. If the Commission wants, as it should, to further evaluate the carrier's costs, the relevant data can and should be produced by the applicant carrier. The minimal

\$4644.9M. The estimated return on this wireless net investment is 11.25% (federal return) times \$4644.9M or \$522.6M. [Investments from 10K-F39 and 10K-F44]

¹⁵ Taxes were estimated based on the Wireless Segment Income (\$998.0M, 10K-F68) as a proportion of Total Segment Income (\$1,958.3M, 10K-F68) times the consolidated taxes (\$580.6M, 10K-F63).

analysis that is required to collect, prepare and review these costs, or the minimal effort that would be required by the applicant to provide this data is clearly in the public interest to insure that the applicant needs the support and that the support funds generated by customers throughout the nation is not an unneeded revenue windfall for the applicant. Further, cost data collected from the applicant carrier should also be sufficient, as required by Section 254(k) of the Act to insure that the applicant carrier is not using support to subsidize the provision of its competitive services.